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SUBJECT: Mozambique - Cargo Scanning Fees Threaten Trade Through
Maputo Port

MAPUTO 00000509 001.2 OF 003

Sensitive But Unclassified - Handle Accordingly

¶1. (SBU) Summary: A new Mozambican company, Kudumba, which is partially owned by the ruling FRELIMO party, has a concession to operate scanners checking cargo at Mozambique's ports of entry. It is charging high fees on all cargo, scanned or not, going through Maputo port. The port and the business community deem Kudumba's fees to be highly exorbitant and a significant deterrent to trade. Kudumba plans to place scanners soon at Beira and other ocean ports, at land crossings and at airports. Spurred by an outcry from the commercial sector, a government-business task force is reconsidering Kudumba's fee schedule. We and other donors have expressed concern that the fees will discourage trade and investment. End summary.

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Murky Tender Awards Contract to Connected Company
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¶2. (SBU) In October 2005, the GRM awarded a scanning concession to the newly created company Kudumba. 65 percent of the company is owned by its chairman, Chassan Ahmad, a Lebanese who immigrated to Mozambique a few years ago after being involved in the diamond industry in the Congo and quickly became wealthy here, owning two "Homecenter" furniture stores. 35 percent is owned by SCI, the holding company of the ruling FRELIMO party.

¶3. (SBU) Other bidders accused Kudumba of improper bidding, and press reports suggested irregularities in the tender process. The head of the US-Mozambique Chamber of Commerce told post Kudumba was defending the award by stating that it had a letter of support from the US Ambassador and that USG pressure (from agencies other than those normally involved in commercial issues) on the Mozambican government led to its selection. (Note: Post is not aware of any USG support provided on behalf of Kudumba. End note.) Kudumba also claimed that U.S. legislation required the use of scanners on all goods shipped to the United States. This claim is not accurate, although scanning is required at Container Security Initiative (CSI) ports like Durban, and shipments coming from CSI ports face less stringent inspection to enter U.S. ports.

¶4. (SBU) Kudumba's bid had said that the company would use a U.S. company, Rapiscan Systems, as its supplier of scanning equipment, and a Rapiscan representative was closely involved in preparing Kudumba's bid. Ahmad told the Ambassador that Kudumba planned to order over usd 12 million in equipment from Rapiscan. Kudumba later hired the representative, Kevin Davies, as its managing director

and purchased scanning equipment from the Chinese company NuTech. A portable NuTech scanner was installed at Maputo's port in July ¶2006.

The Fees (and Outcry)

¶6. (SBU) The tender gave the concessionaire the right to recover costs by charging fees to shippers. Kudumba was apparently given free rein in this regard. Kudumba's initial fee schedule would have earned it in excess of USD 11 million annually from Maputo port alone if shipments remained at their 2005 levels. Kudumba's scanner investment at Maputo port was estimated to have been only around USD 2 million, with maintenance costs for the portable scanner costing around USD 250,000 per year. The business sector's reaction to the initial fee schedule was so vehement that Kudumba quickly released a second, lower, set that it said contained the correct, final figures. This second set of fees (that would have earned Kudumba USD 7 million at the 2005 level of shipments) was considered by the private sector still to be exorbitantly high.

¶7. (SBU) When scanning commenced at Maputo port in July 2006, approximately 80% of all cargo, including transit cargo, was being scanned. However companies were charged scanning fees for 100% of all cargo, scanned or not. Kudumba's fee schedule since July is as follows: Import containers - USD 100 per twenty foot equivalent unit (TEU); Export containers - USD 70 per TEU; Empty containers - USD 20 per TEU; Transit containers - USD 45 per TEU; Vehicles (all) - USD 65 per unit; Bulk Cargo - from USD 0.25 to 1.90 per ton. These fees seem particularly high when one considers that container security fees at 20 ports listed in a 2006 United Nations report on maritime security reportedly range from USD 1.50 to USD 19 per TEU.

Outside International Norms

¶8. (SBU) Comment: Kudumba's fee and scanning practices deviate from standard international practice. Typically, shipments are scanned based on risk assessments, and most countries inspect no more than twenty percent of shipments. It is rare for bulk or transit cargo to be scanned. Further, most ports do not levy scanning fees, even when scanning occurs. Instead, scanning costs are assumed to be more than covered by the increased customs revenue that results from correct declaration of goods. Significantly for Maputo port, its two main competitor ports, Durban and Port Elizabeth, scan based on risk assessment, do not scan bulk or break-bulk or transit cargo, and do not charge for scanning services. Needless to say, all of this has created considerable concern within Mozambique's private sector that the fees will cause trade through Maputo port to stagnate or decline. End Comment.

Port Operator, Donors Upset

¶9. (SBU) The port operator/concessionaire, Maputo Port Development Company (MPDC), which is a venture owned by British, South African, Portuguese, and Swedish companies, is particularly upset. It says that scanning costs will drive away some customers to Durban or Port Elizabeth even though Maputo is closer than those ports to the Johannesburg area and Mmapumulanga province of South Africa. According to MPDC, significant investment at the port, including a planned car terminal that could result in 50,000 vehicles exported through Maputo each year, is on hold pending resolution of the scanning fee issue. MPDC claims that the current Kudumba fee of USD 65 per vehicle would make shipping cars out of Maputo economically unviable.

¶10. (SBU) Concerted lobbying efforts by both Kudumba and the private sector ensued almost immediately after scanning commenced in July 2006 and continue to date, with each side engaging in high-level meetings with government officials. Many donors, particularly those

whose companies own MPDC, back the private sector, and we understand that the British government raised the issue with President Guebuza during his visit to the UK last year. The issue was discussed on the margins of our bilateral Trade and Investment Council meeting last October. The Charge followed up with a November letter to Trade and Industry Minister Fernando that refuted claims that U.S. law required scanners and that expressed concern over the impact Kudumba's fees would have on trade and investment. (We have not received any substantive response.) The private sector effort has been led by MPDC, which has proposed to the government a compromise schedule of fees that would earn Kudumba roughly USD 2.4 million per annum, which is currently under review.

The GRM Response

¶11. (SBU) The GRM's initial response was that this was a dispute for the private sector to resolve - namely, MPDC and Kudumba. With both sides still far apart in the fall of 2006, however, and as the press began to report on FRELIMO's ownership interest in Kudumba, the government realized it would have to act. In late 2006 the government created a task force to analyze the situation, review MPDC's proposal and make a recommendation regarding fees. The task force includes the head of the Ports and Rails parastatal CFM, the President of the USAID-funded umbrella private sector association CTA, and representatives from the Ministries of Planning, Transport, and Finance. In an April 20 newspaper interview, Minister of Finance Chang maintained that the GRM was justified in awarding the concession to Kudumba, but added that the GRM was committed to finding a solution that ensured the port remained competitive. According to Chang (and others), a decision is expected shortly.

Comment

¶12. (SBU) This is essentially an issue about back-door decisions and high-level relationships, and the current practice benefits the ruling party at the expense of the private sector and the Mozambican economy. When the GRM realized the magnitude and potential negative impact of the situation it began to move, but slowly and, sources say, with significant internal resistance. We do not know to what extent the GRM's reluctance to address the issue is related to the party's financial stake in Kudumba or to what extent it may believe that the charges will not greatly affect the competitiveness of the

ports or of Mozambican importers and exporters. How this matter is resolved will be a sign of the GRM's commitment to a sound business environment and sustainable economic growth.

Dudley